



Treasury Financial Manual

Transmittal Letter No. 590

Volume I

To: Heads of Government Departments, Agencies and Others Concerned

1. Purpose

This transmittal letter releases I TFM 3-4000: Federal Income, Social Security and Medicare Taxes. This chapter prescribes procedures agencies must follow to:

- Withhold and deposit Federal income, Social Security and Medicare taxes on wages paid to civilian and military employees.
- File tax returns with the Internal Revenue Service.
- File income tax statements with the Social Security Administration.

2. Rescission

This transmittal letter also rescinds I TFM Bulletin No. 95-07, Requirement To Make Federal Payments Via Electronic Funds Transfer (EFT). Title 31 CFR Part 208, Management of Federal Agency Disbursements, implemented the requirements of the Debt Collection Improvement Act of 1996 (DCIA) and superseded this bulletin. The DCIA required that most Federal payments be made by EFT after January 1, 1999. See the Financial Management Service website at www.fms.treas.gov/eft or call the Cash Management Policy and Planning Division (see inquiries section below) for more information on the DCIA and 31 CFR Part 208 requirements.

3. Page Changes

Remove

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I TFM 3-4000

I TFM Bulletin No. 95-07

Insert

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4. Effective Date

Upon receipt.

5. Inquiries

Direct questions concerning this transmittal letter as follows:

For I TFM 3-4000:

Office of Chief Counsel
Internal Revenue Service
Office of Operating Division Counsel/Associate Chief Counsel
Tax Exempt and Government Entities
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For the rescinded TFM Bulletin:

Cash Management Policy and Planning Division
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Department of the Treasury
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Date: March 10, 2000

Richard L. Gregg
Commissioner

Part 3—Chapter 4000

FEDERAL INCOME, SOCIAL SECURITY AND MEDICARE TAXES

This chapter prescribes procedures agencies must follow to withhold and deposit Federal income, Social Security and Medicare taxes on wages paid to civilian and military employees; file tax returns with the Internal Revenue Service (IRS); and file income tax statements with the Social Security Administration (SSA).

Section 4010—Scope and Applicability

Refer to IRS Publication 15, Circular E, *Employer's Tax Guide*. Circular E describes employer tax responsibilities for withholding, depositing, reporting and paying taxes. It explains the forms employees use and employers send to IRS and SSA. Also see Publication 15-A, *Employer's Supplemental Tax Guide*. For additional information, contact an IRS service center.

Agencies transfer withheld Federal taxes to the IRS through FEDTAX II, the electronic system used by agencies whose funds are dispersed by the Department of the Treasury (Treasury). Federal agencies not on this system must contact FEDTAX II customer service at 1-877-FEDTAX2 or the Financial Services Division, Financial Management Service (FMS), at FTS 874-6580 or 202-874-6580.

Section 4015—Authority

Internal Revenue Code (IRC) [Title 26 of the United States Code (U.S.C.)] provisions authorize procedures for Federal income tax withholding and Social Security and Medicare taxes under the Federal Insurance Contributions Act (FICA). Under IRC section 3306(c)(6), services performed in the U.S. employ

are excepted from the tax imposed under the Federal Unemployment Tax Act (FUTA).

Section 4020—Federal Withholding Rules

4020.10—Specific Rules

IRC section 3122 gives the head of a Federal agency, or the designated delegate, the authority to determine:

- Whether the services performed by Federal employees constitute employment.
- The periods of such employment.
- Whether the remuneration paid for such services constitutes wages.

IRC section 3402(a) requires Federal agencies to deduct and withhold Federal income taxes from wages exceeding the total amount of withholding exemptions. If the employer is the United States or an agency or instrumentality of the United States, an officer or employee with control of the payment of wages may make the tax return for the amount deducted and withheld. (See IRC section 3404.)

IRC section 3101 imposes the employee portion of Social Security and Medicare taxes on wages. IRC section

3102 requires the employer to withhold these amounts from wages.

IRC section 3111 imposes the employer portion of the Social Security and Medicare taxes on wages.

4020.20—Federal Income, Social Security and Medicare Deposits

IRC section 6302(h) requires most large employers to make tax deposits electronically. Agencies send withheld Federal income, Social Security and Medicare taxes to the IRS through FEDTAX II. Some agencies cannot use FEDTAX II because a commercial financial institution, rather than the Treasury, disburses their funds. Those agencies should use the Electronic Federal Tax Payment System (EFTPS). To enroll in EFTPS, see Circular E. Appendix 1 includes applicable forms for FEDTAX II.

4020.30—Federal Income, Social Security and Medicare Taxes Regarding Employee or Independent Contractor

Generally, an employer must withhold income taxes and pay Social Security and Medicare taxes on wages paid to an employee. An employer generally does not have to withhold or pay any taxes on payments to an independent contractor. However, there is a requirement to issue information

returns for independent contractors (see Appendix 2, item 1099-MISC: Miscellaneous Income).

4020.40—Employee or Independent Contractor Status

To determine a worker's status as an employee or an independent contractor, apply the following rule:

An employer-employee relationship exists when the person for whom services are performed has the right to control and direct the individual who performs the services.

This control refers not only to the result, but also to the means and details by which that result is accomplished. The employer's will and control dictate not only what work the employee does, but also how he or she does it. The employer need not actually direct or control the manner in which the employee performs the services, but must only have the right to do so.

The IRS has issued a list of 20 factors courts have used to determine whether the degree of control exists to create an employer-employee relationship (Rev. Rul. 87-41, 1987-1 C.B. 296). These factors, however, do not constitute employee status. The sum of all the facts and circumstances determines whether or not the right to control exists. See Publication 15-A for more information.

To ask the IRS to decide a worker's status, submit Form SS-8: Determination of Employee Work Status for Purposes of Federal Employment Taxes, Income Taxes and Income Tax Withholding, to the appropriate IRS service center. See the Contacts page.

Section 4025—IRC Instructions

4025.10—Withholding and Deducting Federal Income Taxes

IRC sections 3402(a) and 3404 require Federal agencies to deduct and withhold Federal income taxes from wages, including incentive and merit awards.

4025.20—Withholding Additional Federal Income Taxes

The employer may withhold additional Federal income tax by agreement with the employee [IRC section 3402(i)]. The employee may claim fewer exemptions than he or she is entitled to, or may have an additional fixed amount withheld each pay period.

4025.30—Additional Withholding Allowance

Qualified employees may claim additional withholding allowances based on estimated itemized deductions and credits [IRC section 3402(m)]. Form W-4: Employee's Withholding Allowance Certificate, provides a schedule and instructions to determine total withholding allowances.

4025.40—Withholding Not Required

If an employee certifies he or she had no income tax liability last year and expects none during the current year, the employer should not withhold Federal income tax. See IRC section 3402(n).

4025.50—Rounding Amounts of Federal Income Tax Withheld

Agencies may round to the nearest dollar the tax withheld from each employee. Rounding eliminates amounts less than 50 cents and increases

amounts from 50 to 99 cents to the next higher dollar.

4025.60—Submission Requirements for Form W-4

Agencies must submit a copy of Form W-4 to the IRS if an employee claims:

- Ten or more withholding allowances.

OR

- Exemption from withholding and the employee earns more than \$200 a week.

Before filing the FEDTAX Form 941: Employer's Quarterly Federal Tax Return, send Forms W-4 to the local IRS service center with a cover letter. The cover letter must include the agency name, address, employer identification number (EIN), and number of forms attached. Alternatively, attach the Forms W-4 to a paper Form 941.

The IRS informs an agency in a written notice that an employee's Form W-4 is defective. The agency must provide the employee with a copy of the notice. It should withhold based on the maximum number of allowances in the notice. This applies unless the employee files a new Form W-4 consistent with the notice.

4025.70—Expiration of Exempt Form W-4

Employees who claim exemption from withholding must submit new Forms W-4 by February 15. If they do not do so, the agency must withhold taxes as though the employee was single, claiming zero exemptions.

Section 4030—Federal Insurance Contributions Act (FICA)

IRC section 3102 requires employers and Federal agencies to deduct and

withhold the employee portion of FICA taxes from wages paid to employees. IRC sections 3111 and 3112 mandate that Federal agencies pay the employer portion of the FICA tax. FICA taxes consist of two types:

- Old-Age, Survivors and Disability Insurance (OASDI) [IRC sections 3101(a) and 3111(a)].
- Hospital insurance (Medicare tax) [IRC sections 3101(b) and 3111(b)].

4030.10—Civilian Employees Hired before January 1, 1984

Civilian employees hired before January 1, 1984, who are covered under the Civil Service Retirement System (CSRS) are subject only to the Medicare tax. See IRC sections 3121(b)(5) and 3121(u)(1).

4030.20—OASDI and Medicare Taxes

IRC imposes both OASDI and Medicare taxes on:

- Federal employees hired on or after January 1, 1984. These include employees who have experienced a break in Federal service of 366 or more days.
- Legislative branch employees not participating in the CSRS as of December 31, 1983.
- Members of Congress, the President and the Vice President.
- Sitting Federal judges, executive level and noncareer appointees in the Senior Executive Service, and noncareer members of the Senior Foreign Service.

4030.30—Employees Not Covered for Social Security and Medicare under the IRC

Under the IRC, employees not covered by Social Security and Medicare include:

- Inmates of U.S. penal institutions.
- Student nurses, student dietitians, and student physical or occupational therapists described in 5 U.S.C. section 5351(2). This exemption is limited to those attached to a hospital or clinic, etc., operated by the U.S. Government. Sections 4030.10 and 4030.20 describe rules for medical or dental interns or residents in training.
- Individuals serving under temporary conditions connected with emergencies caused by fire, storm, earthquake, flood or other similar emergencies.

Section 4035—Corrections of Withholding and FICA Tax Errors

If the employee is still on the agency's payroll, the agency should correct any clerical error in withholding income taxes made in the current calendar year. The agency should adjust the deduction for the current pay period to offset the error in the employee's withheld income taxes and net pay. The employer makes no adjustment if the error occurred in a prior calendar year or the employee is no longer on the payroll. In that case, the employee makes the adjustment when filing an individual Federal income tax return.

Agencies should correct errors in withholding FICA taxes on Form 941. They must also explain the correction using Form 941c: Supporting Statement to Correct Information. FEDTAX Form 941 filers fax the Form 941c to the IRS Memphis Service Center. Agencies that cannot make such adjustments may claim

a refund by filing Form 843: Claim for Refund and Request for Abatement. Refer to Circular E and the FEDTAX II User Guide for further instructions.

Section 4040—Privacy Act Requirements

According to the Privacy Act of 1974, each agency must publish notices for routine use in the Federal Register. These notices must indicate information routinely disclosed by the agency to IRS and SSA and the circumstances under which such disclosure is made.

If the agency uses Federal forms that do not include a Privacy Act notice, it must provide a Privacy Act notice to the employee from whom information is solicited. A suggested notice follows:

Executive Order 9397, dated November 22, 1943, mandates that the Social Security number be included for identification purposes. Under 26 U.S.C. 3401-04, other information is required for collecting taxes at the source by withholding from wages. This information is used to compute the amount withheld. If it is not furnished, a violation of the Internal Revenue laws may occur.

Section 4045—Accounting for Taxes

4045.10—Withheld Taxes

Each pay period, agencies separately record in employees' permanent earnings records withheld Federal income, Social Security and Medicare tax amounts. They report these taxes separately through FEDTAX II and EFTPS.

4045.20—Employer's Social Security and Medicare Taxes

Each agency with employees covered by Social Security and Medicare taxes must pay employment tax on the employees' salaries and wages. The agency disburses this tax each pay period from the payroll appropriation. It makes one payment, combining the amount of employment tax and the amount of tax withheld from employees' wages.

- Awards.
- Cash awards.
- Bonuses.
- Retroactive wage increases.
- Overtime pay.
- Reimbursement for nondeductible moving expenses.

Agencies should deposit the amount withheld in the same manner as other withheld taxes.

Section 4050—Payment of Taxes

4050.10—Check Issue

Agencies should issue paper checks for payment of Federal taxes only as an exception to electronic deposit. Agencies whose funds are Treasury disbursed should use FEDTAX II. Those whose funds are disbursed from a commercial financial institution should use EFTPS.

4050.20—Deadlines for Deposits

Agencies must submit tax deposits to ensure credit to Treasury's General Account by the tax due date. Agencies using FEDTAX II must transmit payments no later than the payment due date. Those using EFTPS generally must initiate the payment the day before the due date, to settle on the due date. Federal Reserve Banks (FRBs) must receive and process Federal tax deposit coupon payments, if authorized, no later than the due date. See Appendix 3 for a list of FRBs and their branches.

4050.30—Taxes Withheld from Supplemental Wage Payments

Agencies must compute Federal income taxes withheld from wages other than regular salary payments per Circular E, section 7. This type of wage includes:

Section 4055—Filing Quarterly Tax Returns

Agencies file quarterly tax returns with IRS on Form 941. If an agency uses FEDTAX II to submit the payment, generate a Form 941 for agency review and approval. Then, transmit Form 941 electronically to IRS.

If agencies do not use FEDTAX II, those within the United States mail their tax returns to the IRS service center for the State in which the agency office is located (see Circular E). Agencies outside the United States mail their tax returns to the Philadelphia Service Center.

Agencies should file tax returns by:

- The last day of the first month after the close of the quarter.

OR

- The 10th day of the second month after the close of the quarter if the tax has been paid.

The Philadelphia Service Center processes foreign and military APO or FPO tax returns.

Treasury enters tax payment information required under Schedule B, Record of Federal Tax Deposits, on Form 941 from the agencies' record of payment. The total amount of the tax payments made during the quarter should equal the total taxes due, with no further payment required with the tax

return. For FEDTAX II filers, the system automatically generates Schedule B from the liability information entered with the payments during the quarter.

Agencies may file quarterly tax returns early. They should file as soon as possible after the tax quarter closes.

Section 4060—Filing Annual Information Returns

This section applies to departments and agencies required to file annual information returns with SSA (for salaries and wages) or with the IRS (for other transactions agencies must report).

Agencies should keep records for at least 4 years and make them available for IRS review. Records should include:

- Employer identification number.
- Amounts and dates of all wage, annuity and pension payments.
- Fair market value of in-kind wages paid.
- Names, addresses, Social Security numbers and occupations of employees and recipients.
- Dates of employees' and recipients' employment.
- Periods for which employees and recipients were paid while absent because of sickness or injury. This should include the amount and weekly rate of payments made by the agency or a third party.
- Copies of employees' and recipients' income tax withholding certificates.
- Dates and amounts of tax deposits made.
- Copies of returns filed.
- Records of fringe benefits provided. This should include substantiation required under

IRC section 274 and related regulations.

4060.10—Guide to Information Returns

Information returns include the Form W-2: Wage and Tax Statement, Form 1098: Mortgage Interest Statement, and Form 1099 series. See Appendix 2 for a list of these forms.

4060.20—Form W-2 Series Information Returns

Agencies use the Form W-2 series to report salaries, wages and other payments to employees.

Annual Reporting. File Form W-2 series information returns annually with SSA.

Instructions for Filing. Refer to Circular E for information regarding classification of employees and for specific filing instructions.

Reconciliation. Reconcile Forms 941 with wages reported on Forms W-2. Reconcile Form W-3: Transmittal of Income and Tax Statements, with Form 941 totals.

4060.30—Form 1099-C: Cancellation of Debt

File Form 1099-C for each debtor for whom the agency canceled a debt of \$600 or more. In addition, file Form 1099-C when an identifiable event has occurred, such as a debtor's bankruptcy discharge.

An agency should not report a debt as forgiven if it is attempting to collect the debt through the Federal tax refund offset program. An agency should report a debt as forgiven regardless of whether the debtor is eligible to exclude the debt from income because of insolvency, bankruptcy or other reason. For further information on the reporting requirements, see the instructions for Forms 1099, 1098, 5498: Individual

Retirement Arrangement Information, and W-2G: Certain Gambling Winnings.

Filing for discharge of indebtedness occurs when an agency determines that a debt is uncollectible. At this point, the agency should make a formal compromise agreement with the debtor or make no further efforts to collect the debt. In case of compromise, the agency reports the difference between the outstanding balance of the loan and the amount accepted as full payment for an undisputed loan.

An agency may deem a debt uncollectible when the Federal statute for collection expires or when all efforts to collect are exhausted. An agency participating in the Federal tax refund offset program should not report the debt as forgiven.

4060.40—Other Reporting Requirements Reporting Thresholds

Report payments to individuals, partnerships and trusts of \$600 or more. This applies to most Federal agencies except those acting as financial institutions, in which case, interest of \$10 or more is reported. Do not report payments to corporations unless they are to medical corporations for health care services.

Mortgage Interest. Use Form 1098 to report mortgage interest received from individuals. The agency that receives the mortgage interest reports to the IRS and the payer. See Appendix 2 for filing requirements.

Taxpayer Identification Number (TIN) or Employer Identification Number (EIN). Forms 1098 and 1099 must show both a payer and a payee identification number. The agency should use the EIN assigned to it by the IRS. Use the same agency name as on other returns (such as Form 941) filed using this EIN. The TIN is the Social Security number for individuals (including operators of businesses as

sole proprietorships) or the EIN for other entities.

Form 945: Annual Return of Withheld Federal Income Tax. Payers (agencies) must get a payee's TIN before issuing payments. If the payee does not provide a TIN, the agency must collect a 31-percent backup withholding. Report backup withholding on Form 945 with pension and annuity withholdings. Deposit requirements for Form 945 are the same as for Form 941. Agencies must prepare and mail Form 945 to the local IRS service center by February 10 of the year after the withholding.

Annual Reporting. Annually, agencies transmit Forms 1098 and 1099 to the IRS by February 28 of the year after the year for which the returns are filed. For instance, 1992 tax returns were due on February 28, 1993. Statements to the payee are due by January 31. Agencies prepare Form 1096: Annual Summary and Transmittal of U.S. Information Returns, to accompany the Forms 1098 and 1099 as a transmittal document. They prepare a separate Form 1096 for each document type transmitted. Therefore, if filing Forms 1099-MISC and 1099-G: Certain Government Payments, the 1099s are grouped by document type with a separate Form 1096 used as a transmittal for each group.

Instructions for Filing. IRS publications *Instructions 1099* and *Package 1099* contain instructions for filing transmittal Form 1096 and the Form 1099 series. Those publications also include instructions for filing Forms 1098, 1099, 5498 and W-2G. For technical specifications on magnetic media filing, refer to the revenue procedure IRS issues annually.

4060.50—Magnetic Media

See section 4090 for the requirements and instructions for filing annual information returns by magnetic media.

Section 4065—Resident and Nonresident Aliens

4065.10—Withholding Federal Income Tax

Wages paid to resident and nonresident aliens for services rendered in the United States as employees generally are subject to the same Federal income tax withholding rules, procedures and rates applicable to employees who are U.S. citizens. Taxation varies and could be subject to treaty provisions.

4065.20—Withholding Exemptions

Resident aliens may claim the full number of withholding exemptions they would be entitled to under the rules applicable to U.S. citizens. Nonresident aliens who are residents of Canada, Mexico, Japan or South Korea may do the same. All other nonresident aliens may claim only one withholding exemption.

4065.30—Social Security and Medicare Taxes

Nonresident aliens in the United States on “F-1,” “J-1” or “M-1” visas do not pay Social Security and Medicare taxes on money earned while performing services for which such visas were granted. This income is not subject to Social Security and Medicare taxes even if it is for services not covered by the U.S. Government retirement system.

Other nonresident and resident aliens must pay Social Security and Medicare taxes if they perform services in and for the United States and those services are not covered by a U.S. retirement system. Resident aliens pay Social Security and Medicare taxes, whether they perform services outside or within the United States. Nonresident aliens do not pay Social Security and

Medicare taxes for services performed outside the United States. Agencies should report withholding on payments to nonresident aliens on Form 1042: Annual Withholding Tax Return of U.S. Source Income of Foreign Persons. They should deposit the taxes according to the same rules as Form 941.

4065.40—Payment of Taxes and Tax Returns

Agencies should treat withheld Federal income, Social Security and Medicare taxes on wages paid to resident and nonresident aliens in the same way as these taxes are treated for U.S. citizens. See sections 4045, 4050, 4055 and 4060. Include these taxes with other withheld Federal income, Social Security and Medicare taxes as part of the total tax payment transmitted through FEDTAX II or EFTPS. Also, include them on Form 941.

4065.50—Overseas Taxpayer Service Locations

See Appendix 4 for a directory of IRS representatives in foreign countries.

Section 4070—Deceased Employees

If the employee’s wages are paid to his or her beneficiary or estate in the same calendar year the employee died, the covered employee’s unpaid salary, wages and unused annual leave are subject to Social Security and Medicare taxes. The deceased employee’s employer deducts and withholds Social Security and Medicare taxes from the unpaid current compensation and the payment for unused annual leave.

Treat the amount withheld and the employer’s contributions as prescribed in sections 4045, 4050, 4055 and 4060. Wages paid to an employee’s beneficiary or estate after the calendar year in which the employee died are not

subject to FICA taxes. [See IRC section 3121(a)(14); Rev. Rul. 86-109, 1986-2 C.B. 196.]

According to Rev. Rul. 86-109, report the accrued wages and vacation pay of a deceased employee paid to an estate, or other person who has acquired the right to receive the payments, on Form 1099-MISC.

These payments are not considered wages for purposes of collecting income taxes at the source. Therefore, they do not appear on Form W-2, Box 1, “Wages, tips, other compensation.” These payments are considered wages for purposes of FICA taxes only if paid to the beneficiary or estate before the close of the calendar year in which the employee died. If they are paid before that date, the payment amount appears as Social Security wages (up to the amount of the wage base) and Medicare wages on Form W-2. However, it does not appear in Box 1 as wages.

Report the entire amount of death benefits on Form 1099-R: Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. Those benefits may be from a qualified plan paid to an estate or other person who has acquired the right to receive the payments solely because of the employee’s death. Also, report death benefit payments from a nonqualified plan on Form 1099-R.

Section 4075—Levy for Unpaid Tax Liability

IRC provisions permit district directors to collect delinquent Federal taxes by levy on the accrued salary or wages of any officer, employee or elected official of the United States or the District of Columbia. Since this levy is served against the take-home pay of the employee, once the levy is served, agencies should not permit an employee to increase any voluntary allotment until the tax liability is liquidated or other

arrangements satisfactory to the IRS are made.

4075.10—Service of Levy

An IRS employee (agent) serves notice of levy on wages, salary and other income of individuals designated under section 4075.20. The IRS can serve this notice in person or by mail. Service by mail is limited to the United States, its territories and possessions, and ships at sea. A notice of levy includes an original and four copies. All copies should be signed and dated, with the time of receipt noted on the forms. The agency should return the original to the IRS employee. The employing agency keeps one copy. IRS or the employing agency sends another copy to the employee.

The person designated in section 4075.20 must honor all applicable notices of levy, whether served in person or received by mail. The General Accounting Office makes no disallowance nor does it raise charges against any disbursing officer or designated person for complying with notices of levy.

4075.20—Designating Individuals to Receive Service of Notice of Levy

Each Government agency should designate one or more persons on whom notice of levy for delinquent taxes of its employees may be served. These designees receive written statements from such employees regarding exemptions for dependents as provided for in the IRC.

4075.30—Minimum Exemption from Levy for Wages, Salary and Other Income

A check to the employee each pay period includes exempt take-home pay and the amount by which the nonexempt take-home pay exceeds the levy amount. Refer to the IRC for specific exemptions

and related procedures, or contact the local IRS office.

4075.40—Continuing Levy on Salary and Wages

The levy on salary or wages continues from the date the levy is first made until the levy is released.

4075.50—Liquidation through Payroll Deductions

An employee may arrange with the IRS to liquidate a tax liability through payroll deduction. IRS Form 2159: Payroll Deduction Agreement, authorizes such payroll deductions. The employee and a revenue officer (or other authorized IRS agent) must sign Form 2159. Send the original to the payroll office. The employing agency deducts the amount agreed upon from the employee's salary until the total tax liability is liquidated.

4075.60—Payment to IRS

The agency sends one check each pay period to the IRS to cover amounts deducted from employees' pay. Attach a list to the payment containing the name of each employee involved, the amount, the employee's TIN and the taxable year. Send the payment to the address specified by the revenue officer or other authorized IRS agent.

Section 4080—Reimbursement of Employees' Expenses

In some cases, agency reimbursement of employee business expenses is excludable from employees' incomes and not subject to FICA taxes and withholding. This applies only if the employer has a reimbursement or other expense allowance arrangement that is an "accountable plan" within the meaning of the Income Tax Regulations, section 1.62-2. This plan must require that the employee substantiate to the

employer the amounts and business purposes of expenditures and return advances in excess of expenses.

4080.10—Payments under an Accountable Plan

If an employee:

- Must substantiate, and does substantiate, all business expenses, and
- Must return, and does return, amounts advanced for expenses that were not substantiated within a reasonable period;

then, the agency treats the reimbursements as paid under an accountable plan.

If an agency reimburses an employee a per diem or standard mileage rate for auto expenses, the employee must establish the time, place and business purpose of the expense. Then, if the reimbursed amount is the same as or less than the Government specified rates, do not include the amount in the employee's income.

The Federal per diem rates are published, by locality, at 41 Code of Federal Regulations (CFR), Chapter 301, Appendix A. Annually, IRS publishes a Revenue Procedure that provides rules under which business expenses will be deemed substantiated according to the CFR.

Do not report amounts paid under an accountable plan as income on Form W-2. These amounts are not subject to FICA taxes and withholding. Report such amounts on Form W-2, in Box 13, using code L.

4080.20—Amounts Treated as Paid under a Nonaccountable Plan

An agency should report an employee's business expenses as wages on Form W-2 if:

- The employee is not required to substantiate, or does not substantiate, the expenses with receipts or other documentation.
- The agency advances an amount to the employee for business expenses and the employee is not required to return, or does not return, the excess unsubstantiated amount.
- The employee is allowed a per diem or mileage rate exceeding the Federal rate.

Under these circumstances, the agency should report unsubstantiated business expenses and excess amounts not returned as employee wages on Form W-2. These amounts are subject to FICA taxes and withholding. In addition, the agency must report any amount of FICA tax withheld on unsubstantiated or excess amounts to the employee.

4080.30—Reimbursement of Moving Expenses

Exclude employer's payment or reimbursement of employees' moving expenses from income, and from FICA taxes and withholding, only if it is paid under an arrangement similar to an accountable plan.

Exclude moving expense reimbursement from the employee's income, and from FICA taxes and withholding, if it is a qualified moving expense. A qualified moving expense is one that would otherwise be deductible by the employee. See IRC sections 127 and 132(g). Do not exclude the reimbursement if the employee deducted the expense in a prior taxable year.

Report excluded moving expense reimbursements on Form W-2, in Box 13, using code P. Refer to IRS Circular E or Publication 521, *Moving Expense Reimbursements*, for additional information.

Section 4085—Special Certifying Requirements of Federal Income Taxes Withheld from Salaries of U.S. Government Employees Employed in Guam or the Commonwealth of Northern Mariana Islands

4085.10—Special Certifying Requirements

Guam. According to 48 U.S.C. section 1421(h), Federal income taxes derived from Guam are transferred, "covered over," into the Treasury of Guam. Per IRC section 3401(a)(8)(D), "employment," for income tax withholding purposes, excludes services performed for the United States (or agency thereof) within a U.S. possession, to the extent the United States withholds taxes on such remuneration pursuant to an agreement with such possession. The effect of these provisions is that the Federal Government transfers income taxes withheld on its employees who are resident or domiciled on Guam into the Treasury of Guam. This includes compensation paid to employees of a service or social organization associated with a military or civilian Federal agency. The certification procedure contained in section 4085.30 satisfies the statutory requirements.

Commonwealth of Northern Mariana Islands (CNMI). Title 48 U.S.C. section 1681, note [Public Law 94-241, section 703 (b)], contains provisions resembling those for Guam.

4085.20—Defining Income Taxes Derived from Guam or CNMI

The term "Federal income taxes" in section 4085.10 includes those withheld from compensation paid to the following:

- Federal civilian employees in Guam or CNMI.

- Military personnel stationed in Guam or CNMI.
- Active duty military personnel domiciled, but not stationed, in Guam.
- Recipients of Federal pensions (civilian or military, including survivors) resident in Guam.

4085.30—Certifying Federal Income Taxes Creditable to Guam or CNMI

Each calendar quarter, all Federal Government departments and agencies as well as service and social organizations associated with a military or civilian Federal entity that have Federal civilian or military employees stationed in Guam or CNMI must certify the total amount of Federal income taxes withheld from salaries. (See the Contacts page.)

Separate certifications are required for taxes creditable to Guam and CNMI. The certifying entity sends these certifications in a letter citing I TFM 3-4000 as authority. The letter should include identification of the certifying entity, the EIN, the calendar quarter covered by the certifications and the dollar amount withheld.

Submit certifications as soon as possible after the close of the calendar quarter. IRS must receive certification letters no later than the end of the month after the close of the calendar quarter. The amount certified must agree with the amount of income tax withheld and entered in the quarterly Federal tax return of the employer (Form 941).

Section 4090—Using Magnetic Media to File Annual Information Returns

This section applies to all departments and agencies that file annual information returns under section 4060.

4090.10—Definition of Applicable Agency

An applicable agency is an agency, or segment of an agency, represented by a particular IRS-assigned EIN.

4090.20—Magnetic Media Reporting to SSA and IRS

Magnetic Media Reporting of Form W-2 to SSA. All applicable agencies must submit annual information returns on magnetic media for the Form W-2 series. Agencies must send these returns to SSA according to SSA's magnetic media specifications. See SSA's Technical Instruction Booklet No. 4.

Magnetic Media Reporting of Form 1099 to IRS. All applicable agencies must furnish annual information returns

for the Form 1099 series to IRS. Follow IRS-established procedures covering magnetic media, where the reporting capability exists.

If the agency does not have magnetic media reporting capability, or the volume of Forms 1099 is so small that the cost is not justified, then the agency should use paper copies of Form 1099 series.

Installation of a New or Updated Magnetic Media System. If the agency updates its magnetic media system or installs a new one, it must comply with IRS system design and programming requirements.

Partial Use of a Computerized System. An agency does not have to operate with a computerized system for its entire output under that EIN to be subject to

the magnetic media reporting requirements. For example, SSA accepts the paper Form W-2 series for the noncomputerized portion of a payroll operation and magnetic media records for the computerized portion. IRS does the same for the Form 1099 series. An agency may file paper W-2 reports only if it files less than 250 W-2s or the IRS waives the magnetic media filing requirements for that year.

Use of Another Agency's Computer System. If the payroll or other disbursement operation of an agency is serviced, in whole or in part, through another agency's computer system, the servicing agency must comply with the requirements of this section. However, the EIN being reported is that of the agency authorizing payment.

Contacts

Direct inquiries concerning material in this chapter to:

Office of Chief Counsel
Internal Revenue Service
Office of Operating Division Counsel/Associate Chief Counsel
Tax Exempt and Government Entities
1111 Constitution Avenue, NW.
Washington, DC 20224
Telephone: 202-622-6040

Report amounts of Federal income taxes creditable to Guam or CNMI to:

Commissioner of Internal Revenue
Attn: Revenue Accounting Branch OP:FS:S:A
Washington, DC 20224
Telephone: 202-283-1030

APPENDICES LISTING

Appendix No.	Form/Title
1	Application for FEDTAX II Form 941 Personal Identification Number (PIN) Code and FEDTAX II User Profile Sheet
2	Guide to Information Returns
3	List of Federal Reserve Banks and Branches
4	Internal Revenue Service Directory of Offices in Foreign Countries

Application for FEDTAX II Form 941: Personal Identification Number (PIN) Code
(Effective Date: 10/01/1998)

Agency Name: _____

Agency Address:_____

City, State, Zip Code: _____

Employer Identification Number: __-____

Check one of the following:

____ Initial Application. Please issue a PIN Code to the person named below, who is authorized to approve and transmit Form 941 tax returns for the above Employer Identification Number (EIN). This authorization is effective upon receipt of the PIN Code, and will remain in effect until revoked.

____ Notification of change or lost PIN. Please issue a PIN to the person named below and revoke all previous PINs for this agency's EIN. This change is effective for Forms 941, beginning with the _____ quarter of _____ (year).

____ Additional authorization. One or more employees of this agency is currently authorized to approve and transmit Forms 941 on FEDTAX II for this agency. To provide flexibility and backup capabilities, the person named below is also authorized to approve and transmit our Form 941 tax returns.

_____ Revocation. The person named below is no longer authorized to approve Form 941 for this Agency.

Agency Approval: Signature: _____ Date _____
Title: _____

"I recognize my responsibility to ensure all tax deposits and returns are transmitted timely and accurately. By using the PIN code, I certify, under penalty of perjury, that I have examined and have the authority to sign the Form 941, Employer's Quarterly Federal Tax Return, that I am transmitting, including any accompanying schedules, and, to the best of my knowledge and belief, it is true, correct, and complete."

Signature of person to receive PIN _____ Date _____

Print Name_____

Mailing address (if different from above) _____

Phone Number (____) ____ - ____

Mail to: Internal Revenue Service
P.O. Box 934 Stop 6381 AUSC
Austin, TX 78767

Fax to: (512) 460-7686
Attn.: Harvey Finnen

FEDTAX II User Profile Sheet

Please complete this form for each individual that will be a FEDTAX II user.

Employer Identification Number: _ _ - _ _ _ _ _ _ _

Agency Location Code Number: _ _ _ _ _ _ _ _

Agency Name: _____

Agency Address: _____

(no PO Boxes, please) _____

Primary Contact Name: _____

Phone Number: _____

Fax Number: _____

E-mail Address: _____

Security Level: _____ Administrator (May input data and authorize payments)

_____ User (May input data only)

Operating System (Circle one) DOS Windows 3.x Windows 95/98 Windows/NT

Floppy Drives (Circle one) CD ROM Drive 3.5" Floppy

(List additional users as Secondary contacts)

Secondary Contact Name: _____

Phone Number: _____

Fax Number: _____

E-mail Address: _____

Security Level: _____ Administrator (May input data and authorize payments)

_____ User (May input data only)

Operating System (Circle one) DOS Windows 3.x Windows 95/98 Windows/NT

Floppy Drives (Circle one) CD ROM Drive 3.5" Floppy

Technical Contact Name: _____

Phone Number: _____

Fax Number: _____

E-mail Address: _____

Please fax the completed form to FEDTAX II Customer Service at 303-706-6551.

*Questions concerning this form should be addressed to: FEDTAX II Customer Service,
1-877-FEDTAX2, Monday through Friday, 8:30 am to 8 pm, Eastern Time.*

GUIDE TO INFORMATION RETURNS

Form Number	Title	What to Report	Amounts to Report	Due Date	
				To IRS	To Recipient
1098	Mortgage Interest Statement	Mortgage interest you received in the course of your trade or business from individuals.	\$600 or more	February 28	January 31 (To payer/ borrower)
1099-A	Acquisition or Abandonment of Secured Property	Information about the acquisition or abandonment of property that is security for a debt for which you are the lender.	All amounts	February 28	January 31 (To borrower)
1099-G	Certain Government Payments	Unemployment compensation, State and local income tax refunds, agricultural payments, taxable grants, and discharge of indebtedness.	\$10 or more for unemployment and tax refunds; \$600 or more for all others	February 28	January 31
1099-INT	Interest Income	Interest payments not including interest on an individual retirement arrangement (IRA).	\$10 or more (\$600 or more in some cases)	February 28	January 31
1099-MISC	Miscellaneous Income (Also, use this form to report the occurrence of direct sales of \$5,000 or more of consumer goods for resale.)	<p>Rent or royalty payments, prizes and awards that are not for services such as winnings on TV or radio shows.</p> <p>Payments to crew members by owners or operators of fishing boats. Report payments of proceeds from sale of catch.</p> <p>Payments to a physician, physician's corporation, or other supplier of health and medical services. Issued mainly by medical assistance programs or health and accident insurance plans.</p> <p>Payments for services performed for a trade or business by people not treated as its employees. Examples: fees to sub-contractors or directors, expenses incurred for use of an entertainment facility treated as compensation to a nonemployee, and golden parachute payments.</p> <p>Substitute dividend and interest payments reportable by brokers.</p>	<p>\$600 or more except \$10 or more for royalties</p> <p>All payments</p> <p>\$600 or more</p> <p>\$600 or more</p>	February 28	January 31
1099-OID	Original Issue Discount	Original issue discount.	\$10 or more	February 28	January 31

1099-R	Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.	Distributions from pensions, annuities, retirement or profit-sharing plans or from IRAs. Use Form 1099-R only if the distribution closed the payee's account.	All amounts	February 28	January 31
W2	Wage and Tax Statement	Wages, tips, other compensation, withheld income and FICA taxes, and advance earned income credit (EIC) payments. Include bonuses, vacation allowances, severance pay, moving expense payments, some kinds of travel allowances, and third-party payments of sick pay.	See separate instructions.	February 28	January 31

LIST OF FEDERAL RESERVE BANKS AND BRANCHES

<u>Federal Reserve Bank</u>	<u>Mailing Address/Telephone No.</u>	<u>Location</u>
BOSTON	600 Atlantic Ave. Boston, MA 02106 Telephone: 617-973-3000	Same
NEW YORK	Federal Reserve P.O. Station New York, NY 10045-0001 Telephone: 212-720-5000	33 Liberty St. New York, NY 10045-0001
Buffalo Branch	P.O. Box 961 Buffalo, NY 14240-0961 Telephone: 716-849-5000	160 Delaware Ave. Buffalo, NY 14202
PHILADELPHIA	Ten Independence Mall Philadelphia, PA 19106 Telephone: 215-574-6000	Same
CLEVELAND	P.O. Box 6387 Cleveland, OH 44101 Telephone: 216-579-2000	1455 East Sixth St. Cleveland, OH 44114
Cincinnati Branch	P.O. Box 999 Cincinnati, OH 45201-0999 Telephone: 513-721-4787	150 East Fourth St. Cincinnati, OH 45202
Pittsburgh Branch	P.O. Box 299 Pittsburgh, PA 15230 Telephone: 412-261-7800	717 Grant St. Pittsburgh, PA 15219
RICHMOND	P.O. Box 27622 Richmond, VA 23261 Telephone: 804-697-8000	701 East Byrd St. Richmond, VA 23219
Baltimore Branch	P.O. Box 1378 Baltimore, MD 21203 Telephone: 410-576-3300	502 South Sharp St. Baltimore, MD 21201
Charlotte Branch	P.O. Box 30248 Charlotte, NC 28230 Telephone: 704-358-2100	530 East Trade St. Charlotte, NC 28202

<u>Federal Reserve Bank</u>	<u>Mailing Address/Telephone No.</u>	<u>Location</u>
ATLANTA	104 Marietta St., NW. Atlanta, GA 30303-2713 Telephone: 404-521-8500	Same
Birmingham Branch	P.O. Box 830447 Birmingham, AL 35283-0447 Telephone: 205-731-8500	1801 Fifth Ave. North Birmingham, AL 35203
Jacksonville Branch	P.O. Box 929 Jacksonville, FL 32231-0044 Telephone: 904-632-1000	800 West Water St. Jacksonville, FL 32204
Miami Branch	P.O. Box 520847 Miami, FL 33152-0847 Telephone: 305-591-2065	9100 NW. 36th St. Miami, FL 33178-2425
Nashville Branch	301 Eighth Ave. North Nashville, TN 37203-4407 Telephone: 615-251-7100	Same
New Orleans Branch	P.O. Box 61630 New Orleans, LA 70161-1630 Telephone: 504-593-3200	525 St. Charles Ave. New Orleans, LA 70130
CHICAGO	P.O. Box 834 Chicago, IL 60690-0834 Telephone: 312-322-5322	230 South LaSalle St. Chicago, IL 60604
Detroit Branch	P.O. Box 1059 Detroit, MI 48231 Telephone: 313-961-6880	160 West Fort St. Detroit, MI 48226-3201
ST. LOUIS	P.O. Box 442 St. Louis, MO 63166 Telephone: 314-444-8444	411 Locust St. St. Louis, MO 63102
Little Rock Branch	P.O. Box 1261 Little Rock, AR 72203-1261 Telephone: 501-324-8300	325 West Capitol Ave. Little Rock, AR 72201
Louisville Branch	P.O. Box 32710 Louisville, KY 40232-2710 Telephone: 502-568-9200	410 South Fifth St. Louisville, KY 40202
Memphis Branch	P.O. Box 407 Memphis, TN 38101-0407 Telephone: 901-523-7171	200 North Main St. Memphis, TN 38103

<u>Federal Reserve Bank</u>	<u>Mailing Address/Telephone No.</u>	<u>Location</u>
MINNEAPOLIS	P.O. Box 291 Minneapolis, MN 55480 Telephone: 612-204-5000	90 Hennepin Ave. Minneapolis, MN 55401-1804
Helena Branch	100 Neill Ave. Helena, MT 59601 Telephone: 406-447-3800	Same
KANSAS CITY	925 Grand Blvd. Kansas City, MO 64198-0001 Telephone: 816-881-2000	Same
Denver Branch	P.O. Box 5228 Terminal Annex Denver, CO 80217 Telephone: 303-572-2300	1020 16th St. Denver, CO 80202
Oklahoma City Branch	P.O. Box 25129 Oklahoma City, OK 73125 Telephone: 405-270-8400	226 Dean A. McGee Oklahoma City, OK 73102-0129
DALLAS	P.O. Box 655906 Dallas, TX 75265-5906 Telephone: 214-922-6000	2200 North Pearl St. Dallas, TX 75201-2272
El Paso Branch	P.O. Box 100 El Paso, TX 79999-0100 Telephone: 915-544-4730	301 East Main St. El Paso, TX 79901-1326
Houston Branch	P.O. Box 252-2578 Houston, TX 77001 Telephone: 713-659-4433	1701 San Jacinto St. Houston, TX 77002-8215
San Antonio Branch	P.O. Box 1471 San Antonio, TX 78295-1471 Telephone: 210-978-1200	126 East Nueva St. San Antonio, TX 78204-1020
SAN FRANCISCO	P.O. Box 7702 San Francisco, CA 94120-7702 Telephone: 415-974-2000	101 Market St. San Francisco, CA 94105
Los Angeles Branch	P.O. Box 2077 Los Angeles, CA 90051-0077 Telephone: 213-688-2300	950 South Grand Ave. Los Angeles, CA 90015

<u>Federal Reserve Bank</u>	<u>Mailing Address/Telephone No.</u>	<u>Location</u>
Portland Branch	P.O. Box 3436 Portland, OR 97208-3436 Telephone: 503-221-5900	915 SW. Stark St. Portland, OR 97205
Salt Lake City Branch	P.O. Box 30780 Salt Lake City, UT 84130-0780 Telephone: 801-322-7900	120 South State St. Salt Lake City, UT 84111
Seattle Branch	P.O. Box 3567 Terminal Annex Seattle, WA 98124-3567 Telephone: 206-343-3600	1015 Second Ave. Seattle, WA 98104

**INTERNAL REVENUE SERVICE
DIRECTORY OF OFFICES IN FOREIGN COUNTRIES**

<u>Location</u>	<u>Area of Responsibility</u>
BONN, Germany c/o U.S. Embassy PSC 117, Box 225 APO AE 09080-5000 Phone: 9-011-49-228-339-2101	<u>Austria</u> , <u>Hungary</u> , <u>Netherlands</u> , <u>Romania</u> , <u>Poland</u> , <u>Luxembourg</u> , <u>Czech Republic</u> , <u>Slovak Republic</u> , Estonia, Latvia, Lithuania, former Soviet Republics (<u>Armenia</u> , <u>Azerbaijan</u> , <u>Belarus</u> , <u>Georgia</u> , <u>Kazakhstan</u> , <u>Kyrgyzstan</u> , <u>Moldova</u> , <u>Russia</u> , <u>Tajikistan</u> , <u>Turkmenistan</u> , <u>Ukraine</u> , <u>Uzbekistan</u>), Lebanon, Iraq, Qatar, Syria, Iran, Yemen
LONDON, England E/IRS-U.S. Embassy PSC 801, Box 44 FPO AE 09498-4044 Phone: 9-011-44171-408-8085	<u>United Kingdom</u> , <u>Denmark</u> , <u>Ireland</u> , <u>Finland</u> , <u>Norway</u> , <u>Sweden</u> , <u>Iceland</u> , Angola, Botswana, Eritrea, Ethiopia, Kenya, Lesotho, Malawi, Mozambique, Namibia, South Africa, Sierra Leone, Somalia, St. Helena, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe
MEXICO CITY, Mexico P.O. Box 3087 Laredo, TX 78044 Phone: 9-011-525-211-0042	<u>Mexico</u> (1), Guatemala, Belize, El Salvador, Nicaragua, Costa Rica (1), Honduras (1), Anguilla, Antigua and Bar-buda, <u>Aruba</u> (3), Bahamas, <u>Barbados</u> (1), <u>Bermuda</u> (1) (4), British Virgin Islands, Cayman Islands, Dominica (1), Dominican Republic (1), Grenada (1), <u>Guadeloupe</u> (2), Haiti, <u>Jamaica</u> (1), <u>Martinique</u> (2), Montserrat, <u>Netherlands Antilles</u> (3) (Curacao, Bonaire, St. Maarten and Saba), St. Barthelemy (St. Barts), St. Christopher (St. Kitts) and Nevis, St. Lucia (1), St. Martin, St. Vincent and Grenadines, <u>Trinidad</u> , and Tobago (1), Turks and Caicos
OTTAWA, Canada American Embassy/IRS P.O. Box 5000 Ogdensburg, NY 13669-0430 Phone: 9-1-613-563-1878	<u>Canada</u>

PARIS, France
U.S. IRS
American Embassy
Paris
PSC 116, Box E-414
APO AE 09777
Phone: 9-011-3314-312-4560

Spain, Portugal, Switzerland, Algeria, Liechtenstein, Morocco, Monaco, Belgium, Gibraltar, Andorra, Tunisia, Benin, Burkina Faso, Burundi, Cameroon, Cape Verde, Central Africa Republic, Chad, Comoros, Congo, Djibouti, Egypt, Equatorial Guinea, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Liberia, Libya, Madagascar, Mali, Mauritania, Mauritius, Mayotte, Niger, Nigeria, Reunion, Rwanda, Sao Tome and Principe, Seychelles, Senegal, Togo, Zaire, Western Sahara

ROME, Italy
American Embassy
IRS
PSC 59, Box 39
APO AE 09624
Phone: 9-011-396- 4674-2607

Malta, Croatia, Slovenia, Bosnia-Herzegovina, Serbia/Montenegro, the former Yugoslavia Republic of Macedonia, Bulgaria, Israel, Cyprus, Greece, Albania, San Marino, Bahrain, Jordan, Kuwait, Oman, Saudi Arabia, Turkey, United Arab Emirates

SANTIAGO, Chile
IRS
U.S. Embassy
Santiago
Unit 4132
APO AA 34033
Phone: 9-011-562-330-3424

Argentina, Bolivia, Brazil, Chile, Columbia, Ecuador, French Guiana (2), Guyana (1), Panama, Paraguay, Peru (1), Surinam, Uruguay, Venezuela

SINGAPORE,
Singapore
U.S. IRS
American Embassy PSC 470
FPO AP 96534-0001
Phone: 9-011-65-338-0251

Malaysia, Singapore, Thailand, Vietnam, Indonesia, Burma, Bangladesh, India, Sri Lanka, Nepal, Bhutan, Brunei, Cambodia, Pakistan, Afghanistan

SYDNEY, Australia
U.S. IRS
PSC 280,
APO AP 96554
Unit 11025
Phone: 9-011-612-233-4437

New Zealand, Nauru, Fiji, Vanuatu, Papua New Guinea, Western Samoa, and all areas south of the equator and west of the 130th degree line of longitude.

TOKYO, Japan

U.S. IRS

Unit 45004,

Box 208

APO AP 96337-0001

Phone: 9-011-81-33-224-5460

Korea, China, Philippines, Hong Kong, Marshall

Islands (1), Taiwan, Federated States of Micronesia, Mongolia

Notes:

Underlined Countries Have Income Tax Treaties in Force

- (1) Tax Information Exchange Agreements (TIEAs) are in effect with these countries.
- (2) Covered by treaty with France
- (3) Interest article only
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PART 3 - PAYROLLS, DEDUCTIONS, AND WITHHOLDINGS

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